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C O N F I D E N T I A L SECTION 01 OF 02 THE HAGUE 000642

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SUBJECT: NEW DUTCH FINANCE MINISTER READY TO TACKLE THE
HARD ISSUES

REF: THE HAGUE 325

Classified By: ECONOMIC COUNSELOR KAREN ENSTROM,
REASONS 1.4 (B) AND (D)

11. (C) SUMMARY. Only one month in the job, new Dutch Finance Minister Bos is clearly not afraid to take on some of the politically sensitive issues handled by his ministry. He recently told Ambassador Arnall that his ministry's investigation into the transfer of data from Dutch banks to U.S. authorities would focus on whether such transfers were legal under Dutch law. He acknowledged that U.S.-based branches of Dutch banks were subject to U.S. laws and suggested that requiring Dutch banks to obtain "informed consent" from clients prior to data transfers could resolve this issue. Bos also used this introductory meeting to raise GONL concerns about IMF quota and voting power reform. Meanwhile, it remains unclear whether Bos will pursue broader spending on social targets often favored by his own Labor Party or accommodate calls for a tighter budget by his more conservative coalition partners. END SUMMARY.

BANK DATA TRANSFERS

12. (SBU) On March 21, Ambassador Arnall paid an introductory call on Wouter Bos, new Deputy Prime Minister and Finance Minister, who took up his position along with other members of the center-left Balkenende IV cabinet in February (reftel). Bos pledged to continue the close U.S.-Dutch working relationship established under his predecessor Gerrit Zalm, especially in the area of combating terrorist financing and money laundering. He noted that recent press reports alleging the illegal transfer of Dutch bank records to U.S. authorities had put this relationship clearly in the spotlight. Responding to questions from parliament on the matter had been one of Bos' first tasks as Finance Minister. He said the Ministry of Finance (MOF) had initiated an investigation into claims by the quasi-independent Dutch Privacy Authority that Dutch banks had breached privacy laws by transferring data without informing clients.

13. (C) Bos explained that the questions from parliament concerned requests from U.S. branches of Dutch banks to offices in the Netherlands for data and the subsequent transfer of such data to the U.S., where such data was then

legally subject to U.S. law. He stressed that the data transfers under investigation were not/not related to SWIFT procedures. He said it was clear that U.S.-based branches of Dutch banks were subject to U.S. laws and any legal requests for financial data or records. The MOF investigation was looking into whether such transfers were legal under Dutch law or existing treaties, he noted, and there was no question at this point about whether the U.S. had violated any laws. While a full investigation was needed, Bos suggested that requiring banks to obtain "informed consent" from clients prior to the transfer of data could be a solution. In response to the Ambassador's offer, Bos said he and his staff would seek USG assistance in the matter at a later date, if needed.

IMF QUOTA REFORM

14. (SBU) Bos used the meeting as an opportunity to raise Dutch concerns about efforts to reform the governance structure of the IMF by increasing the voting power of fast-growing emerging market countries. He said the GONL agreed that the IMF needed to reflect changes in the world economy and acknowledged that some emerging markets were underrepresented. The GONL was prepared to give up part of its quota, he explained, provided that a new quota formula was rule-based and reflected the IMF's mission and objectives, including incentives to pursue sound economic and financial policies that foster global economic integration. He said sufficient weight must be given to a country's GDP within any new formula as well as the transparency and openness of a country's economy. In a follow-on discussion with EconCouns, Freek Keppels, Deputy Head of the MOF's

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International Economy and Financial Institutions Division, voiced support for an EU proposal to compress the quota shares of the largest countries in the IMF as a "simple, rules-based approach."

COMMENT: "FIXING THE ROOF WHILE THE SUN IS SHINING"

15. (C) Some observers believe the coming years will serve as a true test of former PvdA (Labor) leader Bos' political prowess and lasting power. After miraculously putting the Labor Party back in the picture in January 2003 elections, Bos was seen as the "golden boy" who would be the next prime minister. His party subsequently lost significantly in the November 2006 parliamentary elections following what many described as a disastrous election campaign. By taking on the bank data transfer issue so early in this tenure, however, Bos has already shown that he is not afraid to confront politically sensitive issues.

16. (C) At the MOF, Bos will follow in the footsteps of Wim Kok, who also served as Finance Minister and later as Prime Minister and demonstrated that the Labor Party was capable of managing the country's finances. Bos served from 2000-2002 as State Secretary under the more fiscally conservative Minister Zalm (VVD). Meanwhile, it remains unclear whether he will pursue the budgetary framework set up by his predecessor. With official estimates predicting economic growth at 2.75 percent in 2007 and 2008 as well as a balanced 2007 national budget and a forecasted 0.7 percent budget surplus in 2008, Bos may be better placed to pursue increased spending on more traditional Labor Party social targets, despite expected resistance from his more conservative coalition partners (Christian Democrats and Christian Union).

As he recently told the press, "you must fix the roof while the sun is shining."

ARNALL